

Ottawa tech companies: Crossing the chasm to market success



There is significant local concern that fewer venture-backed startups are getting off the ground in Ottawa these days. While this is a vital concern, I believe the bigger current issue is getting companies “*completed*” rather than getting them “*started*.”

Over the last six years, approximately 100 local venture-backed companies got off the ground. These raised in aggregate well over \$1 billion in multiple rounds of financing. Many leading products have been created with many companies starting to emerge as potential anchor tenants: local, large, successful, acquisitive firms.

Anchor tenants successfully compete in large billion dollar markets, rank in the top four of their technology space, have highly capable management teams, significantly scale revenues repeatedly, and if there are enough of them, together foster an ecosystem that promotes the next generation of start-ups.

The current state, course and outcome of these companies is affecting Ottawa’s future as an emergent, vibrant tech hub

a-la Silicon Valley. Lack of “completion” outcomes is sucking up scarce capital into companies that are later stage and not ready for an outcome, while stifling investment into new companies. There is a shrinking capital pool, of which 80 per cent is going into existing companies.

Essentially, we urgently need some significant exits, most preferably via IPO’s. The Ottawa tech scene requires 20 or more exits to transpire, and four or more anchor tenants to emerge, in order to realize its full potential. I believe this is the greatest issue facing the local industry today.

We have all these startups, they got \$1 billion, what is happening?

I have taken part in countless discussions on this topic over the last few years. I suggest that there are at least five homemade systemic issues that have significantly affected our emerging tech companies. These issues, “anti-leverage points” if you will, have served to delay positive outcomes and have exacerbated an already challenged capital situation.

Over a series of articles, I will attempt to systematically identify and address the issues in a useful way for the community. Many of our hopefuls have attacked and overcome a number of these issues, improving their chance for success. Several local and government

organizations have worked to mitigate these very same issues. We will leverage everyone’s knowledge to try and build a serviceable bridge over this chasm.

The Canadian Discount

Canadian startups invariably have to turn to the U.S., most often Silicon Valley, for capital because of its scarcity in Canada. U.S venture capitalists are hesitant to invest in Canadian opportunities for many reasons including awkward proximity, tax implications, regulatory issues, etc.

In order to be noticed against their Silicon Valley counterparts, Canadian companies need to be FAR more compelling. They still generally enjoy lower valuations compared to U.S. counterparts. The best way to turn a discount to a premium is to get a customer to do it for you.

A Bridge too far...Perpetual Fundraising

Because of the reluctance of U.S. investors to be first into a nascent Canadian company, the first, “A round,” of capital is most often completed by local Canadian venture capitalists. Companies rarely raise enough on the first round to get to the milestones required by the next financing. Invariably, this leads to a “bridge round” of financing. Astoundingly, I’ve seen companies seek financing for a “B round” after as many as *three or more* such bridge rounds!

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Successful companies have a knack for raising money earlier than when required, and get to spend more time building value in the business so that subsequent fundraising goes smoothly.

Slow Technology Adoption

Customers need time to appreciate disruptive value propositions. This increases the sales cycle for truly unique solutions yielding slow adoption ramps for new technology. What a conundrum! A less innovative product won't stand out in the crowd, while the "Canadian discount," makes it difficult to raise the money required to stay the course while customers get on board. Companies break this by bringing a less capable product to market to garner sales, while developing the relationships that will allow the "home run" product to scale.

Sales.... but not Momentum

Ottawa companies are often thought of as being good at R&D but less capable at sales. I think this is more a result of

investment focus rather than of capability. By concentrating on product innovation, we are not spending the money required to build a strong enough business development and sales engine *early* enough in the company's lifecycle.

Successful companies build themselves from the customer back through "fulfillment," i.e., the customer dog wags the R&D tail, not the other way around.

Thin Ecosystem

It is no surprise that Ottawa has a shallow pool of new and seasoned entrepreneurs, a thin available talent pool, a small cadre of angel investors, few local venture capitalists, a couple of start up friendly banks, one investment bank outpost, and only a few local anchor tenants that are potential acquirers. The Valley has a far deeper ecosystem. Many Ottawa companies take significant strategic actions to mitigate this issue.

Light at the end of the tunnel

Despite all the issues, the extremely positive aspect of Ottawa tech is that in general it is hunkering down, reaching out to the world and fighting through the issues. This is a tough resilient community that has world-class problem solving skills, and we need to treat this as just another problem to solve.

One thing is clear; since we have these significant built-in disadvantages, we need to work together using every means at our disposal to ignite our virtuous cycle. We need to get at least 20 companies to "completion", four of which become new anchor tenants that are high growth, in the "top four," and fiercely competitive worldwide. This will lead to positive outcomes for investors, which will allow funds to be raised, which leads to more funded startups...

Next column: More on the Canadian Discount and how to combat it.

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